

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
November 20, 2014

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, November 20, 2014, at 3:10 p.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 3:10 p.m. Upon a call of the roll, the following answered:

ATTENDED:	Alan Granite, President	Jim Strey, Trustee
	Chris Black, City Finance Director	Michael White, Trustee
	Tracy Renfro, Secretary	

STAFF:	Linda Wlaznik, Pension Investment Accountant	Judi Yehling, Recording Secretary
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GUESTS:	Attorney Carolyn Clifford, Ottosen Britz	Mike Piotrowski, Marquette Associates
	Leslie Hultgren, Fiduciary	

I. PUBLIC COMMENT -- None

II. MINUTES

- The October 16, 2014, minutes of the regular meeting and minutes of the Fitz disability hearing held on October 16th, both open session and closed sessions, were presented. Alan Granite made a motion to approve the minutes as presented and Michael White seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Chris Black	Jim Strey
	Tracy Renfro	
Nays:	None	

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Driver/Engineer Dennis Buck is retiring effective November 21, 2014, having served 27 years and 2 months. He is entitled to a monthly pension of \$4,948.27/month or an annual pension of \$59,379.23. Alan Granite made a motion, seconded by Tracy Renfro, to approve the application for pension. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Chris Black	Jim Strey
	Tracy Renfro	
Nays:	None	

- Driver/Engineer Anthony Spataro is retiring effective November 28, 2014, having served 34 years and 2 months. He is entitled to a monthly pension of \$5,305.01/month or an annual pension of \$63,660.14. Tracy Renfro made a motion, seconded by Jim Strey, to approve the application for pension. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Chris Black	Jim Strey
	Tracy Renfro	
Nays:	None	

- Firefighter Michael McCallips is applying for a disability pension, and the application has been received from his attorney. Attorney Clifford will send a letter to his attorney acknowledging his application and request the signed medical release forms necessary to begin the process. Firefighter Ralph Wallen died on November 3, 2014, and his pension will terminate. Pension application for survivor's benefits was received from his surviving spouse, Margaret Wallen. Alan Granite made a motion, seconded by Tracy Renfro, to approve the termination of Ralph Wallen's pension and grant surviving spouse benefits to Margaret Wallen. A roll call vote was taken

Ayes: Alan Granite Michael White
Chris Black Jim Strey
Tracy Renfro
Nays: None

IV. DISBURSEMENTS

- Alan Granite made a motion to approve the November payroll of \$1,302,695.80. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Chris Black Jim Strey
Tracy Renfro
Nays: None

- Invoices totaling \$63,075.54 were presented as shown in the warrant packet. Alan Granite made a motion to approve the invoices as presented in the warrant packet. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Chris Black Jim Strey
Tracy Renfro
Nays: None

V. CASH & INVESTMENTS

- Leslie Hultgren of Fiduciary presented the report for the year:
 - Fiduciary is a small cap manager with 26 employees. They are wholly employee-owned and have been in business since 1980. Looking for good companies at a discount.
 - In 2011 the market was down 5.5% while Fiduciary was up over 5%. However they lagged behind in the 2012 & 2013 the market was up over 35% but they preserve and/or add value in a down market and year to date the benchmark is up 2% but Fiduciary is up over 6%. There has been volatility in the small cap market and biotech stocks took a dive but these are stocks which they don't invest in.
 - In performance dollars, in 2008 the portfolio was funded with \$4.7 million and you contributed \$5.6 million but subsequently withdrew more than was invested. However, as of October 31, 2014, the portfolio has \$13.3 million which was made over six years. Leslie's comment was that "patience pays off."
 - When comparing to the Russell 2000 Index, they are "not afraid" to be underweight to sectors in the benchmark, i.e. Finance. They're concentrated managers with about 30 names in the portfolio.

- The portfolio trades at a discount to the overall market that means there's a "cushion" should the market turn.
- Page 9 shows activity and they've recently had 12 purchases and 6 sales. They're seeing a lot of acquisitions in the small cap space and this creates cash when they sell which they must then redeploy and "that's the tricky part." They're looking for good, stable, durable businesses but everything is elevated in the small cap market and is getting more expensive. Corporate earnings are great but the belief is that they are being manipulated and they "need to find the truth behind the numbers."
- Page 12 shows an overview. While interest rates are low, companies have a lot of money on their balance sheets. Believe inflation is just going to keep increasing which means more volatility. They are preparing by being patient – putting together a wish list of companies they would like to own when they are less expensive and preparing for the downswing.
- Currently they have less than 10% in cash and have been deploying more of their dollars. They invest in long-only equities with a \$5 million market cap and below.
- Mike Piotrowski commented that Marquette will continue to monitor them as 10% in cash is the fund's maximum guideline. Per Mike Piotrowski the message is the same every single time; small cap is the most expensive area of the U.S. equity market. "Now is the perfect time to own a manager like this because they'll be a little more defensive." His recommendation will be to take the cash needs this month from them because they have it on hand. "They're a good manager; their track record is great."
- Mike Piotrowski presented Marquette Associates' Report on status of the Fund as of October 31, 2014:
 - The market has changed quite a bit and is focused more on fundamentals. The S&P is up 12%.
 - Current value of the Fund is \$1.56 million and is slightly overweight to U.S. equities. He is recommending taking cash needs from Fiduciary.
 - October has been volatile but ended with an up market. The fund is up 1.2% and 5.1% year to date. Mike Piotrowski believes that the fund can get to the 7.5% assumption rate this year.
 - U.S. equities are doing well but international is negative with Europe below 1% growth and Japan in recession. Consequently valuations on the international side are more attractive than the U.S. There is potential for greater return in the international markets.
 - Bonds are up 4-5% year to date due to the turmoil in the global markets and both Hillswick and Segal are up, 6.1% and 3.2% respectively.
 - The international composite has been "disappointing." Manning & Napier has underperformed significantly and they are putting them on alert status. However, it's largely due to their investment in the energy sector with oil prices down and it is something that will have to be monitored.
 - Page 10 shows REITS are up 25% year to date fueled by cheap access to capital.
 - The portfolio is extremely diversified, more so than ever.
 - Per Mike Piotrowski with the Republicans in control who are more pro-business/pro-market, the market should fare better but the Federal interest rate will have more effect than the election.
 - The recent market "downturn" was a "non-event." It just snapped right back. Investors are taking on a lot of risk.
- Mike Piotrowski's final comment was that the portfolio will need to be rebalanced to ensure a minimum of 35% in fixed income and cash.

- Cash needs for the month are \$600,000 and the recommendation is to take it from Fiduciary. Michael White made a motion, seconded by Tracy Renfro, to take cash needs of \$600,000 from Fiduciary: A roll call vote was taken:

Ayes: Alan Granite Michael White
 Chris Black Jim Strey
 Tracy Renfro
Nays: None

- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Tracy Renfro, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Michael White
 Chris Black Jim Strey
 Tracy Renfro
Nays: None

VI. OLD BUSINESS

- There's been no further progress on the DOI audit.
- Attorney Clifford brought up for discussion the tax levy request letter a copy of which she had mailed as a draft and which included two pages of audits showing assets versus liabilities and annual contribution. Discussed PUC at 90% versus Entry Age Normal with PUC rendering a higher required contribution from the City. However, she feels the Board should continue to aspire to request the City follow entry age normal at 100% which is higher than the statutory minimum (PUC at 90%). In the draft letter to the City, she pitched the use of entry age normal and \$8.3 million by the year 2040, as opposed to the statutory minimum, and asked the City to pursue a little more aggressive funding policy, to get within the current year in terms of the contribution and make any extra contribution to bring down the unfunded liability.

Chris Black commented that in 2013 the City's contribution was above the statutory requirement; the required 90% PUC contribution is being put in which is according to the actuarial report. However, Moodys looks at the Financial Statement which is the 100% entry age normal. Chris Black asked that the last two lines on the first page of the draft be removed as they create a rather misleading impression and do not represent a fair statement. In discussing the issue further, Attorney Clifford said that the actual investment return is not the same as the actuarial investment return and not an "apples to apples" comparison. She feels it would be worthwhile to have an actuarial education session with all the stakeholders, and actuarial reports should be based on the best assumptions and not on "how can we make it less." She believes that there has been a bad trend since 2011 and the new state statute. Suggestion was made that the line talking about the City being two years behind should be reworded to say "the City is basing its contribution on data from a previous study." Chris Black also asked that the whole last paragraph be stricken from the letter. Attorney Clifford will e-mail a revised copy of the request letter to Alan Granite for his signature, and it will be submitted by Linda Wlaznik along with a copy of the Investment Policy to the City Council.

Alan Granite made a motion, seconded by Tracy Renfro, to approve the tax levy request letter with the amendments as discussed and it will be forwarded for the Alan Granite's signature. A roll call vote was taken:

Ayes: Alan Granite Michael White
Tracy Renfro Jim Strey
Nays: Chris Black

- Linda Wlaznik presented to the Board the Municipal Compliance Report with correction from the last meeting. Tracy Renfro made a motion, seconded by Chris Black, to approve the updated Municipal Compliance Report and submit it with the investment policy and tax levy request letter. A roll call vote was taken:

Ayes: Alan Granite Michael White
Chris Black Jim Strey
Tracy Renfro
Nays: None

- Discussed Linda Wlaznik's ability to make financial transactions on behalf of the Fund without a second signature required. The Board agreed that Linda had the authority to take these actions on behalf of the Board.

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS

- The schedule for next year's regular meetings was presented (third Thursday of the month at 3 p.m.), and Tracy Renfro made a motion, seconded by Chris Black, to approve the schedule as presented. Motion carried.
- Tracy Renfro's position is up for election next year and so are Chris Black's and Michael White's appointments.
- Jim Strey informed Board that he will be stepping down after December and would like to see the Board start the process for electing a new retiree member. Nomination forms will be put out with the December checks. Only the January meeting will then be short by one person.
- Attorney Clifford will have the letter that reflects the Board's decision as far as Fitz's disability hearing on next month's agenda. It will be approved in December and there is then a 35-day window for appeal after the vote. There were some issues that arose that could use some clarity especially as far as job descriptions and a description of light duty.
- TRAINING – Alan Granite mentioned the IPPA spring conference in Peoria this May.

IX. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:40 p.m.

Next regular meeting is December 18, 2014, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its December 18, 2014, meeting.